

**REPORT OF THE AUDIT OF THE
MADISON COUNTY
CLERK**

**For The Year Ended
December 31, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MADISON COUNTY CLERK

For The Year Ended
December 31, 2007

The Auditor of Public Accounts has completed the Madison County Clerk's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Madison County Clerk had total receipts of \$20,084,752, which was a \$1,185,981 increase from the prior year. Except for reimbursed expenses in the amount of \$20,106, the clerk paid 25% of receipts to the Madison County Fiscal Court in the amount of \$494,136. This was an increase of \$124,689 from the prior year. In addition, disbursements increased by \$777,993.

Debt Obligations:

Lease principal agreements totaled \$755,891 as of December 31, 2007. Future principal and interest payments of \$755,891 are needed to meet these obligations.

Report Comment:

- The County Clerk Should Advertise For Bids When Required
- The County Clerk's 75% Fund Had A Deficit Balance Of \$317,140

Deposits:

The County Clerk's deposits as of April 30, 2007, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$492,778

The County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Madison County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2007. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2008 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Advertise For Bids When Required
- The County Clerk's 75% Fund Had A Deficit Balance Of \$317,140

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Madison County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 8, 2008

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State Fees For Services	\$	27,940
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	2,374,374
Usage Tax		9,549,944
Tangible Personal Property Tax		5,889,025

Other-

Fish and Game Licenses		12,165
Marriage Licenses		21,407
Miscellaneous		22,281
Deed Transfer Tax		348,958
Delinquent Taxes		1,197,400
		19,415,554

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		44,954
Real Estate Mortgages		173,607
Chattel Mortgages and Financing Statements		209,938
All Other Recordings		86,634
Affordable Housing Trust		103,836

Charges for Other Services-

Copywork		15,746
		634,715

Other:

Refunds		1,148
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Interest Earned		5,395
		20,084,752

Total Revenues		20,084,752
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Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	1,581,759
Usage Tax		9,261,170
Tangible Personal Property Tax		2,048,540

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2007
(Continued)

Expenditures (Continued)

Payments to State: (Continued)

Licenses, Taxes, and Fees-

Delinquent Tax	\$ 125,967	
Legal Process Tax	77,479	
Miscellaneous	11,835	
Affordable Housing Trust	<u>87,186</u>	\$ 13,193,936

Payments to Fiscal Court:

Tangible Personal Property Tax	398,119	
Delinquent Tax	89,317	
Deed Transfer Tax	<u>331,510</u>	818,946

Payments to Other Districts:

Tangible Personal Property Tax	3,166,818	
Delinquent Tax	<u>656,401</u>	3,823,219

Payments to Sheriff 5,745

Payments to County Attorney 172,304

Other Charges-

Refunds and Overpayments	<u>41,225</u>	
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Total Expenditures \$ 18,055,375

Net Revenues 2,029,377

Payments to State Treasurer:

75% Operating Fund	1,502,514	
25% County Fund	<u>494,136</u>	<u>1,996,650</u>

Balance Due at Completion of Audit \$ 32,727

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2007

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2007	\$	\$	\$
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,502,514		1,502,514
Fees Paid to State - County Funds (25%)		494,136	494,136
Total Funds Available	1,502,514	494,136	1,996,650
<u>Expenditures</u>			
Payments To Madison County Fiscal Court		494,136	494,136
Personal Services-			
County Clerk's Statutory Maximum	91,437		91,437
County Clerk's Expense Allowance	3,600		3,600
Deputies Salaries	882,863		882,863
Employee Benefits-			
Employer's Share Social Security	68,436		68,436
Employer's Share Retirement	143,913		143,913
Employer's Paid Health Insurance	103,982		103,982
Other Payroll Disbursements	2,956		2,956
Contracted Services-			
Copy Machine And Maintenance	33,022		33,022
Miscellaneous Equipment Agreements	20,925		20,925
Office Maintenance/Cleaning	13,135		13,135
Supplies and Materials-			
Office Supplies	20,952		20,952
Miscellaneous Office Expense	59,994		59,994

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2007
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges-			
Conventions and Travel	\$ 13,897	\$	\$ 13,897
Dues	150		150
Postage	1,850		1,850
Books and Maps	123,055		123,055
Maintenance and Repairs	27,174		27,174
Tax Bill Preparation	446		446
Capital Outlay-			
Office Furnishings	70,379		70,379
Debt Service:			
Computer Equipment and Software	137,488		137,488
Total Expenditures	1,819,654	494,136	2,313,790
Fund Balance - December 31, 2007	\$ (317,140)	\$ 0	\$ (317,140)

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2007

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
(Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 30, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

- Uninsured and Unsecured \$492,778

Note 4. Lease

The office of the County Clerk was committed to a lease agreement with Software Management for hardware and software. The agreement requires a monthly payment of \$14,692 for 60 months to be completed in February 2012. The total remaining balance of the agreement was \$749,292 as of December 31, 2007.

The office of the County Clerk was committed to a lease agreement with US Bank for copiers. The agreement requires a monthly payment of \$347 for 48 months to be completed in June 2009. The total remaining balance of the agreement was \$6,599 as of December 31, 2007.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Madison County Clerk for the year ended December 31, 2007, and have issued our report thereon dated August 8, 2008. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Madison County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Madison County Clerk's financial statements for the year ended December 31, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Clerk Should Advertise For Bids When Required
- The County Clerk's 75% Fund Had A Deficit Balance Of \$317,140

The Madison County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Madison County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 8, 2008

COMMENTS AND RECOMMENDATIONS

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

STATE LAWS AND REGULATIONS:

The County Clerk Should Advertise For Bids When Required

During our audit we noted the County Clerk purchased a mobile shelving unit costing more than \$90,000 without advertising for bids. KRS 424.260 requires the County Clerk entering into a contract or agreement involving an expenditure of more than \$20,000 to advertise for bids. We recommend the County Clerk comply with KRS 424.260 when purchasing items over \$20,000.

County Clerk's Response: County Clerk has always bid out any purchase over \$20,000. The mobile shelving unit purchased was bought at the state rate; however, vendor was not listed as a state pricing contract. The County Clerk's office in the future will contact the state to make sure the vendor is on their list.

The County Clerk's 75% Fund Had A Deficit Balance Of \$317,140

The County Clerk's 75% operating fund had a deficit balance of \$317,140 as of December 31, 2007. KRS 64.345(4) states, "If seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his/her office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his/her term." The 75% operating fund has to be settled at the end of the County Clerk's term, which ends December 31, 2010. We recommend the County Clerk monitor disbursements and review the established budget to ensure this deficit is eliminated by the end of the Clerk's term.

County Clerk's Response: County Clerk budgeted \$390,000 in 2007 budget for all remodeling expenses to be reimbursed by the fiscal court. The deficit balance of \$317,140 would not exist if this had been reimbursed.

